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Contact: Ella Krucoff
(202) 862-9540

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E.C.-U.S ECONOMIC AND TRADE RELATIONS

1986 REVIEW AND CURRENT PROBLEMS

The European Community and the United States are closely linked politically and economically. At the same time, they are competitors in the trade sphere, and this regularly leads to friction between the two.

SPECIFIC RECENT PROBLEMS

Enlargement

Spain and Portugal joined the Community on January 1, 1986. In March, the United States raised objections about the implementation by the new member states of the provisions on agriculture in the Accession Treaty. It claimed that these provisions would adversely affect their grain and soybean exports to Spain and Portugal.

The United States asked the Community for immediate compensation to cover loss of earnings, which it put at \$1 billion.

The Community considered the U.S. objections unjustified, and argued that the effects of the E.C. enlargement had to be evaluated as a whole, without singling out the agricultural sector. Spain and Portugal's trading partners should benefit from significantly lower customs duties on industrial products, and from the extension of certain Community tariffs that are "bound" at a low rate--that is, they cannot be changed without negotiations and compensation. The tariff for soybean products, for example, is bound at zero.

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Nevertheless, on May 15, the United States imposed nonrestrictive quotas on a number of Community agricultural products in response to treaty provisions affecting Portuguese imports. The Community retaliated on June 16 by introducing surveillance of a number of U.S. exports that would be subject to possible countermeasures if the U.S. quotas became restrictive.

The U.S. also announced it planned to increase tariffs on certain European agricultural products after July 1 if a solution had not been found to the conflict over Spanish imports. The Community prepared a retaliatory package that targeted corn gluten feed, rice and wheat.

These plans were suspended when the two sides on July 1 reached an interim agreement, in effect until December 31. The Community agreed to monitor U.S. exports to Spain of corn, sorghum, corn gluten feed, brewing residues and citrus pellets. If they fell below 234,000 metric tons a month, the E.C. would enable the shortfall to enter its market by setting a quota at a reduced levy.

The two parties continued negotiations on this issue under Article 24/6 of the General Agreement on Tariffs and Trade, but had not reached an agreement as the year came to a close. President Reagan announced on December 30 that he was imposing duties of 200 percent on E.C. exports of canned ham, certain cheeses, endives, carrots, unripe olives, white wine, brandy and gin.

E.C. Commissioner Willy De Clercq responded that when those duties took effect, the Community would be obliged to enact equivalent measures on corn gluten feed, wheat or rice as announced in June. He expressed hope, however, that a solution could be found by the end of January, when the American measures were scheduled to be imposed.

Machine tools

On December 16, 1986, the United States informed the Federal Republic of Germany that it would take unilateral action if exports of certain categories of machine tools exceeded specified levels during the following five years. The United States later also threatened to act against the United Kingdom, Italy and Spain if their companies' exports captured an

increased share of the U.S. market for these products. The Community has complained that such matters fall under its exclusive competence, and that the threatened measures violate international trading rules. The E.C. Commission said it would propose remedial action if the United States enacted restrictions.

Semiconductors

The Community has protested against the agreement concluded on July 30 between the United States and Japan on semiconductors. In its opinion, some aspects of the agreement jeopardize international trading rules and threaten the Community's legitimate interests.

Three aspects of the agreement are of particular concern: The monitoring of Japanese exports to third countries and the subsequent price increase for semiconductors on the Community market; the potentially privileged access of U.S. firms to the Japanese market; and the agreement's general lack of transparenence.

The Community has therefore started proceedings in GATT under both Article 22 and the antidumping code.

Fisheries

An agreement on access by Community fishermen to U.S. fishing zones was signed in February 1977, and renewed for the period 1984-89. The Community is concerned that its usual quotas for squid and mackerel have not been established for the 1987 fishing year, and is seeking early consultations with the United States. The E.C. warns that this matter could risk future cooperation between Community and U.S. fishing interests to the detriment of both parties.

Other subjects

The Community has also expressed concern to the United States about a number of other matters, including extraterritoriality, customs user fees, Superfund legislation and certain aspects of tax reform.

In July 1985, the U.S. Congress renewed the Export Administration Act, which authorized the U.S. Government to exercise extraterritorial

jurisdiction for reasons of national security and foreign policy. This law, designed to prevent U.S. high technology products from falling into the hands of the Eastern bloc countries through export and reexport, is unacceptable to the Community for reasons of sovereignty.

The United States recently introduced customs user fees relating to merchandise, and to shipping and aviation services. The Community is concerned about the proliferation of fees of this kind, particularly those relating to the inherent obligations of the State. In such cases, no fees should be levied. Other user fees should be based solely on the costs of the services rendered. The Community has initiated proceedings under GATT Article 22 on this issue.

The Superfund legislation to finance the cleanup of sites in the United States contaminated by toxic waste discriminates by providing for a higher tax on imported crude oil than on the domestic product. The Community has called for consultations under GATT Article 22 on this matter. It will do the same for provisions of the new tax reform law which exclude foreign suppliers of small tourist aircraft from certain forms of credit.

RECENT SETTLEMENTS

Citrus and pasta--GATT disputes

The Community and the United States in 1986 managed to resolve a long-running dispute concerning objections to E.C. tariff preferences for citrus fruit from certain Mediterranean countries. The dispute had taken a turn for the worse in June 1985, when the United States retaliated by slapping high customs duties on pasta products from the Community.

The U.S. selected pasta because it objects to Community export refunds for that product. The parties had attempted unsuccessfully to resolve both the citrus and pasta questions under GATT dispute-settlement procedures.

The Community countered the pasta duties in July with measures to increase sharply the duties on walnuts and lemons from the United States. These took effect in November. In August 1986, the two parties reached an agreement:

- The United States recognized the Community's Mediterranean agreements and undertook not to make any further complaints about the preferences for Mediterranean citrus fruit;
- The parties agreed on a number of trade concessions, the Community on citrus fruit and almonds, the United States on products important to the Mediterranean member states, notably olives and olive oil. These concessions are expected to be implemented in 1987.
- They established a "modus operandi" for resolving the pasta dispute. Talks are continuing on this issue.
- Both sides agreed to lift the retaliatory measures they imposed on each other.

Steel

Since early 1985, steel has been a major bone of contention between the Community and the United States. Following a series of negotiations, the last of which ended in September 1986, virtually all the Community's steel exports to the United States (about 6 million tons a year) are now covered by arrangements which will expire in September 1989.

AGRICULTURE

The United States often attacks the E.C.'s Common Agricultural Policy, charging that export subsidies give European farmers an unfair advantage in world trade. The Community argues that these subsidies comply fully with GATT rules. U.S. farmers also complain that Community farm policy is protectionist.

American criticism notwithstanding, the Community has traditionally recorded a deficit in agricultural trade with the United States. Although this deficit, at \$2.3 billion in fiscal year 1986, is lower than in previous years, the Community remains the U.S. farmer's best customer and the world's biggest importer of agricultural products.

Tensions between the Community and the United States over agriculture stem largely from the decline in U.S. farm exports, which fell from \$48 billion in 1981 to \$32 billion in 1986. However, U.S. exports to the Community declined last year by only 3 percent, compared with a fall of 19 percent to other destinations, and they represent almost 25 percent of all U.S. foreign sales.

The United States has embarked on an aggressive policy of increasing its share of world agricultural markets. One example of this is the Export Enhancement Program, which will provide \$1 billion to U.S. exporters over a three-year period to help them boost agricultural sales, especially of wheat, on foreign markets.

The E.C. Commission has condemned this move, which it believes is unwarranted and liable to disrupt world trade in agricultural products. It argues that although the U.S. share of the world wheat market has shrunk from 49 percent in 1981/82 to 25 percent in 1985/86, it is hardly the Community's fault. Its market share during this period remained within a margin of 14 percent to 17 percent.

BACKGROUND

Although there is no formal agreement establishing a general framework for relations between the Community and the United States, contacts between the two sides are frequent: consultations between officials, exchanges of visits by U.S. Secretaries and E.C. Commissioners, and close contacts through the Commission Delegation in Washington and the U.S. Mission in Brussels have taken place since the founding of the Community. Members of the U.S. Congress and the European Parliament also meet twice annually.

In 1981, it was decided to step up dialogue at the political level and since then a large U.S. Cabinet-level delegation led by the Secretary of State has met each year with a Commission delegation headed by the Commission President.

The ground rules applied to the bilateral relationship between the Community and the United States are those of multilateral organizations

such as the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). In trade, general GATT rules apply, notably the Most Favored Nation clause. Thanks to these rules, the GATT contracting parties have been able to set up a relatively transparent nonpreferential structure for trade tariffs and, through the GATT rules and codes, accept binding arrangements for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalized.

The Community and the United States cooperated to launch the Uruguay Round of multilateral trade negotiations in September 1986. The talks, which will intensify this year, will cover agriculture, services, intellectual property rights, textiles, safeguards, dispute settlement and other subjects.

Economic and Trade Links

There are close economic links between the Community and the United States, both leaders in the world economic and trading system. Alone, they account for over 30 percent of world trade, and thus have a major responsibility for the management of the system.

They also represent more than 70 percent of the industrialized world's Gross Domestic Product. European investment in the United States amounts to \$106 billion (out of a total foreign investment of \$160 billion), while U.S. investment in the Community accounts for \$82 billion (out of a total of \$233 billion). They are also linked by the size of their combined industrial output: some 35 percent of world steel production, 50 percent of world car production and 70 percent of world aircraft production.

The Community and the United States are major markets for each other, with trade between them totaling 148 billion European Currency Units* (more than \$120 billion) in 1985. The Community of Twelve takes 21 percent of U.S. exports, making it the United States' second largest market, a little behind Canada (22 percent).

*See page 10 for a description of the ECU's value against the dollar.

In recent years, there has been a remarkable increase in bilateral trade between the Community and the United States. (See chart on page 10.)

Over the years, the Community has regularly run up a trade deficit with the United States. At times, this deficit has been enormously high, as in 1980, when it was almost 18 billion ECU. However, because of the strength of the U.S. dollar, the trend has been reversed. In 1985 the Community had a surplus of 16 billion ECU, although it still recorded a deficit on agricultural products.

While there is no overall agreement between the Community and the United States, some specific accords have been concluded.

Euratom-U.S.

This was the first agreement signed on behalf of the European Atomic Energy Community (Euratom), less than five months after the entry into force of the Euratom Treaty in 1958. This agreement, supplemented by another accord later that year, establishes a framework for cooperation on peaceful uses of nuclear energy, including the supply of nuclear fuel to the Community by the United States.

At the end of the 1970s, the United States Government proposed updating parts of the agreements relating to safeguards throughout the nuclear cycle, and talks have been taking place.

In July 1986, the Community and the United States signed a joint declaration of intent on research into radiation protection. In December, they signed a scientific and technical cooperation agreement on thermonuclear fusion.

Environment and work safety

In 1974, the Commission and the U.S. Administration agreed to hold regular consultations between officials and, where necessary, to take joint action on environmental issues. In 1979, they agreed to examine together various aspects of work health and safety.

Trade between the Community of Twelve and the U.S. by Country

Millions ECU*

	<u>1984</u>		
	IMPORTS	EXPORTS	BALANCE
FRANCE	8,587	9,597	1,010
BELGIUM-LUXEMBOURG	4,529	3,992	-537
NETHERLANDS	7,490	4,310	-3,180
FEDERAL REPUBLIC OF GERMANY	12,845	20,926	8,081
ITALY	6,546	10,172	3,626
UNITED KINGDOM	18,830	17,578	-1,252
IRELAND	*22 1,741	1,193	-548
DENMARK	1,004	2,012	1,008
GREECE	359	510	151
PORTUGAL	1,356	579	-777
SPAIN	4,106	2,852	-1,254
E.C. TOTAL	67,393	73,721	6,328

	<u>1985</u>		
	IMPORTS	EXPORTS	BALANCE
FRANCE	9,066	11,090	2,024
BELGIUM-LUXEMBOURG	4,483	4,465	-18
NETHERLANDS	7,568	4,765	-2,803
FEDERAL REPUBLIC OF GERMANY	13,517	24,957	11,440
ITALY	7,114	12,679	5,565
UNITED KINGDOM	18,627	19,602	975
IRELAND	1,892	1,333	-559
DENMARK	1,333	2,326	993
GREECE	420	485	65
PORTUGAL	982	689	-293
SPAIN	3,933	3,133	-800
E.C. TOTAL	68,935	85,524	16,589

	<u>1986</u> (6 months)		
	IMPORTS	EXPORTS	BALANCE
FRANCE	4,167	4,542	375
BELGIUM-LUXEMBOURG	2,122	1,834	-288
NETHERLANDS	3,393	1,929	-1,464
FEDERAL REPUBLIC OF GERMANY	5,976	12,968	6,992
ITALY	3,228	5,311	2,083
UNITED KINGDOM	7,417	7,831	414
IRELAND	780	545	-235
DENMARK	628	945	317
GREECE	180	154	-26
PORTUGAL	369	248	-121
SPAIN	1,723	1,208	-515
E.C. TOTAL	29,983	37,515	7,532

Trade between the Community of Ten and the U.S.

	Millions ECU*							
	1960	1970	1975	1980	1983	1984	1985	1986 (6 months)
E.C. IMPORTS	5,470	12,416	20,915	44,601	53,482	61,931	64,020	27,891
E.C. EXPORTS	3,371	9,354	13,295	26,775	50,275	70,290	81,702	36,059
E.C. BALANCE	-2,369	-3,062	-7,620	-17,826	-3,207	8,359	17,682	8,168

Trade between the Community of Ten and the U.S.
by Groups of Products, 1985**

	Millions ECU				
	E.C. Imports	% of Total	E.C. Exports	% of Total	E.C. Balance
Food***	3,434	5.4	2,356	2.9	-1,078
Tobacco, Beverages	824	1.3	2,699	3.3	1,875
Raw Materials (including oilseeds)	6,271	9.8	724	0.9	-5,547
Minerals Fuels	3,439	5.4	6,214	7.6	2,775
Vegetable and Animal Oils	249	0.4	79	0.1	-170
Chemicals	6,472	10.1	6,369	7.8	-103
Basic Manufactures	4,051	6.3	12,479	15.3	8,428
Transport Equipment and Machinery	26,345	41.2	33,499	41.0	7,154
Other Manufactures	7,467	11.7	12,498	15.3	5,031

Source: EUROSTAT

*The exchange rate ECU/dollar varies daily as the various E.C. currencies, which make up the ECU, vary against the dollar. One ECU was worth \$1.00 from 1960 to 1972, \$1.24 in 1975, \$1.39 in 1980, \$1.12 in 1981, \$.98 in 1982, \$.89 in 1983, \$.83 in 1984, \$.76 in 1985, and \$.94 for the first 6 months of 1986.

**Community of Ten: the E.C. without Spain and Portugal, which became member states January 1, 1986.

***The above table's product breakdown follows the Standard International Trade Classification (SITC). Agricultural products appear in four locations in the classification.